

Message Text

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ORIGIN EB-11

INFO OCT-01 EUR-25 ISO-00 STR-08 COME-00 TRSE-00 SS-20

OMB-01 L-03 CAB-09 CIAE-00 DODE-00 DOTE-00 INR-10

NSAE-00 RSC-01 FAA-00 PA-04 USIA-15 PRS-01 SP-03 MC-02

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DRAFTED BY EB/OT/TA:WTADAMS:JW

APPROVED BY EB:WARMSTRONG

EUR/CAN:EMBROWN

B/TA:WBARRACLOUGH

STR:MPOMERANZ (NOTE)

B/OT/STA:EKEMPE (NOTE)

COMMERCE:LFOX (NOTE)

REASURY:JNEWMAN (NOTE)

S/S-S:EMDENHAM (NOTE)

B/OT:MWGLITMAN

----- 033570

R 101745Z APR 74

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

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E.O. 11652: N/A

TAGS: ETRD, CA

SUBJECT: CANADIAN OFFSET REQUIREMENTS

REF: (A) STATE 03339

(B) OTTAWA 0152

1. EMBASSY REQUESTED TO DELIVER FOLLOWING NOTE TO GOC.

2. BEGIN TEXT: (DIPLOMATIC OPENING) THE CANADIAN MINISTER
OF TRANSPORT IN A RECENT SPEECH DECLARED THAT AIR CANADA,
THE MINISTRY OF TRANSPORT AND THE DEPARTMENT OF INDUSTRY,
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TRADE, AND COMMERCE HAVE RAISED WITH POTENTIAL SUPPLIERS

THE QUESTION OF THE TYPE AND PROPORTION OF OFFSETTING PRODUCTION CANADA MIGHT EXPECT FOR ITS AEROSPACE INDUSTRY AS A RESULT OF POSSIBLE CANADIAN PURCHASES OF UNITED STATES AEROSPACE EQUIPMENT. THE SPEECHES OF THE MINISTERS OF SUPPLY AND SERVICES AND OF TRANSPORT BEFORE THE AIR INDUSTRIES ASSOCIATION OF CANADA LEAVE LITTLE DOUBT THAT CANADA REGARDS OFFSET REQUIREMENTS AS A KEY ELEMENT IN MANY AREAS INVOLVING GOVERNMENT PROCUREMENT, AND IS SEEKING TO INTENSIFY OFFSET EFFORTS IN THE AEROSPACE SECTOR, IN PARTICULAR. CANADIAN OFFICIALS HAVE CONFIRMED THIS POLICY OF OFFSET ARRANGEMENTS IN CONVERSATIONS WITH OFFICIALS OF THE UNITED STATES GOVERNMENT.

3. THE UNITED STATES IS CONCERNED THAT EXPORT SALES TO

CANADA BY UNITED STATES INDUSTRY SHOULD BE MADE CONTINGENT ON "OFFSET" CONSIDERATIONS, SUCH AS SUBCONTRACTING FOR PARTS PROCUREMENT IN CANADA AND/OR THE ESTABLISHMENT IN CANADA OF FACILITIES FOR RESEARCH OR THE PRODUCTION OF EQUIPMENT WITH HIGH TECHNOLOGICAL CONTENT. THE UNITED STATES BELIEVES THAT INDUSTRY SHOULD BE FREE, WITHOUT GOVERNMENT INTERVENTION OR INTERFERENCE, TO SUBCONTRACT OR TO INVEST IN PRODUCTION FACILITIES ON THE BASIS OF ECONOMIC EFFICIENCY AND SHOULD NOT HAVE TO MAKE THESE DECISIONS ON OTHER GROUNDS AS A CONDITION FOR OBTAINING SALES. THE UNITED STATES IS CONCERNED THAT AMERICAN SUBCONTRACTORS MUST FACE THE BARRIER OF CANADIAN OFFSET REQUIREMENTS IN SELLING TO OTHER AMERICAN FIRMS FOR EXPORT ORDERS TO CANADA AND THAT AMERICAN FIRMS MUST COMPETE WITH EACH OTHER AND WITH FOREIGN FIRMS FOR CANADIAN ORDERS ON GROUNDS OTHER THAN THOSE RELATED DIRECTLY AND OBJECTIVELY TO THE SALE.

4. THE GENERAL QUESTION OF OFFSET REQUIREMENTS AS A CONDITION FOR GOVERNMENT APPROVAL OF A BUSINESS ACTIVITY OR TRANSACTION WHICH REQUIRES THE TACIT OR EXPLICIT APPROVAL OF THAT GOVERNMENT IS OF INCREASING CONCERN TO THE UNITED STATES GOVERNMENT. THE UNITED STATES BELIEVES THAT SUCH POLICIES, PARTICULARLY WHEN APPLIED TO PURCHASES OF COMMODITIES FOR COMMERCIAL USE, RISK NOT ONLY UNFAIR LIMITED OFFICIAL USE

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DISCRIMINATION AGAINST FOREIGN SUPPLIERS AND BETWEEN THEM, BUT AN INTENSIFICATION AND PROLIFERATION OF SUCH PRACTICES WHICH CREATE INCREASINGLY SIGNIFICANT PROTECTIONIST PRESSURES AND WILL UNDERMINE ONGOING ATTEMPTS TO CREATE A MORE OPEN TRADING SYSTEM.

5. THE UNITED STATES BELIEVES THAT THESE PROBLEMS SHOULD BE DISCUSSED IN DETAIL BY REPRESENTATIVES OF THE TWO

GOVERNMENTS. ACCORDINGLY, THE GOVERNMENT OF THE UNITED STATES WOULD APPRECIATE AN OPPORTUNITY TO CONSULT AT AN EARLY DATE WITH THE GOVERNMENT OF CANADA FOR THE PURPOSE OF CLARIFYING THE POLICY OF THE GOVERNMENT OF CANADA WITH REGARD TO OFFSET REQUIREMENTS AND TO EXPLORE WAYS OF ENSURING THAT AMERICAN INDUSTRY IS NOT DAMAGED BY SUCH POLICIES. (DIPLOMATIC CLOSING) END TEXT.

6- THE DEPARTMENT IS TRANSMITTING TODAY ANOTHER NOTE REQUESTING CONSULTATIONS ON POSSIBLE CANADIAN ACTIONS IN THE COMPUTER SECTOR. THE EMBASSY MAY WANT TO DELIVER THESE NOTES AT THE SAME TIME. DEPT WOULD LIKE TO HOLD THESE CONSULTATIONS BACK-TO-BACK AS SOON AS MUTUALLY CONVENIENT. SINCE US IS ASKING FOR CONSULTATIONS CHOICE OF VENUE CAN BE LEFT TO CANADIANS. HOWEVER, DEPT PREPARED TO HOST MEETING HERE. KISSINGER

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